

Chen

18 July 1985

NOTE FOR: Director of Central Intelligence

FROM: David B. Low
National Intelligence Officer for Economics

SUBJECT: Private Sector Development in LDCs

Attached are the following:

1. A copy of the current version of the summary paper which Ambassador Keating is using to press his concerns with senior members of the Administration. For the most part I have drafted this. If you want to send a letter on this topic to the President or Mr. Regan, you could draw from this.

2. Talking points which Bob Keating asked be given to you with the request that you consider phoning Mr. Regan to lay the groundwork for a visit by Bob Keating and myself.

3. A hilarious/sad example of an attempt by AID to cram the "entrepreneur" into a preconceived box designed for other purposes. This illustrates the total lack of understanding by AID of the private sector and market forces.

4. Another copy of the Heritage Foundation publication on US aid.



David B. Low

Attachments:
As Stated

16 July 1985

**INTERNATIONAL PRIVATE ENTERPRISE:
WHEN WILL THE REAGAN REVOLUTION BEGIN?**

The Setting

We have now had 40 years of foreign assistance and the clear evidence is that only when capital is made available to the private sector can real and sustained economic growth take place. America's program to support Third World economic development is a consequence of fundamental US interest in furthering its own political and economic goals and security. By promoting self-sustaining economic growth based on private enterprise and market incentives, the US can establish a necessary condition for long-term stability and the convergence of political values.

The President at Cancun in 1981 articulated a positive program of action for economic development, based on:

- stimulating international trade by opening up markets, both within individual countries and among countries;
- tailoring particular development strategies to the specific needs and potential of individual countries and regions;
- guiding our assistance toward the development of self-sustaining productive activities, particularly in food and energy;
- improving the climate for private capital flows, particularly private investment; and
- creating a political atmosphere in which practical solutions can move forward.

At Williamsburg there was agreement on the need for convergence of economic policy and performance, and in particular the promotion of continued structural adjustment in the industrialized democracies through enhancing the flexibility and openness of economies and financial markets. There is much to be done in these countries to emphasize the need for greater labor mobility, capital formation, shift of resources away from the public sector, etc., but the mechanisms and policy context for accomplishing this are substantially different than in the Third World. The same can be said with respect the Eastern Europe, although there is every reason to believe that US policy and programs in each case can be mutually reinforcing.

The purpose of this note is to call attention to one of the major unmet goals of this Administration—encouraging LDC economic growth through the private sector—and to suggest the options which remain available to effect real change within the next three years. More than ever we are at a turning point. The time remaining for a decision and effective initiative is running out.

The Challenge

Economic policies in the Third World (and industrial nations) are shifting toward market-oriented approaches. Many of these countries are just beginning to initiate practical policies which will gain momentum over the next 10 years. The President's goals as spelled out at Cancun thus were timely and have the potential of delivering international economic growth through the stimulation of private enterprise. The strategy and mechanisms for carrying out the goals are, however, flawed. Thus, the challenge of implementing the President's program remains unfulfilled.

The Opportunities

This changing climate presents significant economic opportunities for the United States:

- to increase small- and medium-scale enterprises within LDCs and the acceptance of new technologies;
- to enlarge the flow of foreign direct investment, and to help state enterprises to become more efficient and find ways to relinquish some functions to the private sector;
- to strengthen its trade, finance, and investment links with LDCs based upon a growing mutuality of economic interest.

The growing American economy is an irresistible example impelling change in the economies of both the industrial and Third World countries. Many developing countries now understand that rigid, Marxist-socialist economic models will not yield economic and industrial growth. In addition, Soviet economic and financial constraints over the next 10 years will make Moscow even less able to compete in non-military sectors. Thus:

- the changing climate should strengthen the West's position relative to that of the Soviet Union if we take advantage of it, and
- in specific countries US security interests will often coincide with opportunities for economic support and can be mutually reinforcing.

The Obstacles

Although the richer LDCs have been able to advance economically by exporting, the poorer LDCs will have to depend on the emergence of small- and medium-scale, domestically oriented enterprises as their main engine of growth.

But many Third World leaders are moving slowly because they feel threatened by a loss of political control caused by the diffusion of economic power.

- How does the US encourage a tilt toward free-market policies while helping reduce the fears as to political instability?

AID, as currently structured, is not the solution. In fact, it is part of the problem. Western countries have built ponderous bureaucracies of their own which for the most part administer social welfare programs, humanitarian aid and security assistance without generating economic growth.

- Bureaucratically, AID opposes new initiatives to address this issue which are beyond its control, as a matter of turf.

AID has an important role as part of the process. It can use its programs and resources to create leverage for policy change and the dismantling of state enterprises. However, present developmental assistance efforts are not philosophically based on the President's goals as stated at Cancun nor sufficiently directed toward effective stimulation of private enterprise. The AID understanding of the private sector is limited, and there is little positive correlation in AID programs with private sector growth.

Thus, we are at a stalemate.

The Crucial Questions

- Is the President aware that, despite the positive climate for change, his program to encourage economic growth and more open societies through the stimulation of private enterprise remains unfulfilled?
- Is the Administration satisfied with the current means of coordination of US policy for economic and security assistance to key countries and regions?
- Is it time to refocus existing mechanisms or to structure a new mechanism to stimulate international private enterprise?
- Is the Administration willing to commit the political capital necessary to address this issue through legislative change?

The Proposals for Change

The Peterson Commission in 1972, the Reagan Transition Team in 1980-81, the Carlucci Commission of 1982, a portion of the President's Task Force on International Private Enterprise in 1984 and others have concluded that AID is the wrong institution to carry out the private sector mandate. These groups have proposed that one or more new institutions be created, such as:

- a US International Development Bank;

- a US version of the International Finance Corporation (equity participations);
- a US Development Corporation to support feasibility studies and to provide management expertise and venture capital for new ventures; and
- a Private Enterprise Institute to be a source of information and counsel to stimulate international trade and investment.

Some proposals are quite specific about funding as well, for example, setting aside up to 25% of the AID development assistance budget, or about \$500 million, to capitalize such institutions, and for authorizing borrowing directly from the Treasury.

Consideration has also been given to the expansion of OPIC, which has two significant advantages:

- OPIC already exists in a form designed to interact directly with and to promote private investment abroad, and
- it is the USG agency most closely associated with US business decisionmakers seeking to invest in LDCs.

OPIC, however, is a relatively small organization with a specialized staff and its expansion would require legislative change. Some have proposed in addition that the mandate of the Export-Import Bank be expanded.

All of these proposals have one thing in common: the need to shift resources away from AID to an environment which understands the private sector. Unless the Administration is prepared to do this, the President's goals will not be fulfilled.

The Options

In order to implement an Administration commitment to change, the President can:

1. Appoint a new head of the International Development Cooperation Agency (IDCA). This already-established position, which is above AID and which includes oversight of OPIC, is currently held by the Director of AID.

- This position would offer a new incumbent the opportunity to develop the strategy and the modalities for stimulating private enterprise in the Third World, including a more effective partnership with the US private sector.
- This person could lay the groundwork and develop the legislative framework to shift the necessary resources from AID, and to bring to fruition the President's goals as stated at Cancun.

2. Appoint a Special Assistant to the President for International Private Sector Development. Appointment of a person to this position would be an alternative which would allow attainment of the goals expressed in option 1.

3. Appoint a new Director of AID. Replacement of the current Director by someone with a private sector orientation would allow for:

- a blunting of the current policy drift which is counter to many of the President's private sector objectives;
- a shift in focus of development resources and programs toward policy conditionality and the philosophy of self-sustaining economic growth;
- release of a portion of AID funding to support new initiatives.

The new AID Director would be confronted with a staff that does not understand the private sector. There would be bureaucratic inertia or resistance to overcome and this would consume a great deal of time.

Obviously, any legislation required to shift resources would take time. But, the goal would be to put in place before the end of this term the proper mechanism for implementation of the President's Cancun goals.

17 July 1985

TALKING POINTS FOR USE WITH DONALD REGAN

STIMULATION OF THE PRIVATE SECTOR IN LDCs

- Ambassador Bob Keating (Madagascar) has recently been giving this topic alot of thought.
- My National Intelligence Officer for Economics (David Low) has been helping him, with my support.
- The US has not done enough to carry out the President's program announced at Cancun in 1981 to stimulate the private sector in developing countries.
 - AID is just not doing the job, because it doesn't know how.
- Several of us in the Administration (myself, McFarlane, Baldrige) and many in the business community are very concerned about this.
 - Time is running out in order to make some real impact during the President's second term.
- I would like to ask if Ambassador Bob Keating and David Low could call and arrange to spend 15 minutes with you on this topic.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

July 9, 1985

Subject: RFP COD/AN-85-005
Research on Entrepreneur Identification
and Development in Morocco

Gentlemen/Ladies:

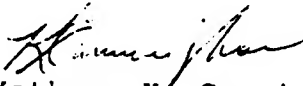
The United States Government, represented by the Agency for International Development (A.I.D.), is seeking proposals to provide the services described in the attached pages.

To this end, A.I.D. is issuing this Request For Proposals (RFP), which consists of this cover letter, Standard Form 33 with accompanying sections, and Attachments J.1 through J.2.

This RFP in no way obligates A.I.D. to award a contract nor does it commit A.I.D. to pay any cost incurred in the preparation and submission of a proposal.

Any questions concerning this RFP should be directed to H. T. Simon, Contract Specialist, of this office who may be reached at (703) 235-9137.

Sincerely,


Kathryn Y. Cunningham
Contracting Officer
A/N Science and Technology Branch
Central Operations Division
Office of Contract Management

SECTION B

SUPPLIES OR SERVICES AND PRICES/COSTS

The Agency for International Development (A.I.D.) requires the services of a qualified contractor, over a three (3) year period, to undertake a project to increase successful entrepreneurship in Morocco.

Based upon the results of ongoing entrepreneurial research efforts in less developed countries (LDCs), the project objective of expanding the base of successful entrepreneurs in order to promote the process of small enterprise development shall be accomplished through a multi-phased approach which includes:

- o Entrepreneur Identification - the determination of the personal entrepreneurial characteristic variables which are associated with successful indigenous entrepreneurs, and the development, testing, and validation of a methodology/instrument for identifying individuals demonstrating such characteristics;
- o Behavioral Training - the development, testing, and evaluation of a behavioral training program which improves entrepreneurial effectiveness through behavior change as opposed to formal business skills training.

A three (3) year cost-type contract, reimbursing allowable costs incurred in furnishing the negotiated level of effort, is contemplated. Negotiation of a fixed fee will be considered for profit-making organizations.

SECTION C

WORK STATEMENT

C.1. Background and Problem Statement

Although estimates indicate that ~~some 30-60% of the economic~~ activity in urban areas of less developed countries (LDCs) is attributable to small and informal sector enterprises, only recently has the economic significance of this sector been recognized by the development community. While previous projects have focused resources on efforts (e.g., financial assistance, business skills training, infrastructure development) to develop and stimulate such entrepreneurial activities, research indicates that insufficient attention has been given to the entrepreneurs themselves.

In response to this deficiency, the Agency's Bureau for Science and Technology, Office of Rural and Institutional Development, Employment and Enterprise Division (S&T/RD/EED) has developed the Entrepreneur Identification and Development Project to improve techniques for identifying and training small-scale entrepreneurs.

As used in the context of the Project, entrepreneurial potential is defined as the personal characteristics (behavior, values, dispositions, attitudes, etc.) of individuals which are identified with successful entrepreneurial performance. By identifying these characteristics and developing methodologies with which to select and train entrepreneurs demonstrating such potential, the effectiveness of the resources dedicated to small enterprise development is expected to increase significantly.

As contemplated in this solicitation, Project activities are to be undertaken in Morocco to supplement other Agency-sponsored research being conducted in Malawi, Ecuador, and India.

C.2. Scope of Work

To achieve the Project objective of expanding the base of successful entrepreneurs in order to promote the process of small enterprise development in Morocco, the contractor shall perform the following tasks:

A. Identify and Validate Personal Entrepreneurial Characteristics

- (i) Pre-Implementation Analysis: In consultation with S&T/RD/EED, thoroughly review and interpret the results of Project research activities in Malawi, Ecuador, and India and prepare a summary report of the conclusions.

(ii) Project Planning and Site Selection:

- a) Coordinate with S&T/RD/EED personnel and representatives of the National Science Foundation to plan Project activities;
- b) Visit country sites to assess the feasibility of conducting the research, and to identify qualified Moroccan research organizations to perform data collection activities;
- c) Establish contractual relationships with the Moroccan research organization(s) identified as having the staff capabilities (e.g., language fluency, management skills, and administrative/logistical support) necessary to interview the target population of entrepreneurs and collect research data.

(iii) Entrepreneur Identification:

- a) Coordinate with the participating Moroccan research organization(s) to develop a sample selection with balanced regional, cultural and social (male/female) considerations;
- b) Identify in-country organizations (chambers of commerce, trade associations, financial institutions, government ministries/councils, etc.) capable of recommending superior-performing entrepreneurs in manufacturing, marketing, and service industries;
- c) Establish the sample of seventy-two (72) entrepreneurs, equally divided among manufacturing, marketing, and service industries, and including thirty-six (36) clearly superior performers and thirty-six (36) average performers.

(iv) Interviewer Training:

- a) Prepare interview outlines and training guides for the Moroccan research organization(s);
- b) Conduct a four (4) day training program in Morocco for the local project manager and field interviewers;
- c) Review the initial interviews conducted by each field interviewer and provide constructive feedback in effort to improve interviewing skills.

(v) Entrepreneur Interviews and Data Collection:

- a) Coordinate with the Moroccan research organization(s) to conduct tape-recorded interviews of the seventy-two (72) entrepreneurs in the initial research sample, and to translate and transcribe the results;
- b) Review the quality of the interview transcripts and advise field interviewers of any improvements needed in interviewing techniques.

(vi) Transcript Analysis and Identification of Personal Entrepreneurial Characteristics;

- a) Review thirty-six (36) of the interview transcripts for characteristics that: 1) are required in all entrepreneurs, and 2) distinguish superior from average performance;
- b) Conduct a two (2) day "concept formation" meeting to define and organize the identified personal entrepreneurial characteristics;
- c) Use the personal entrepreneurial characteristics with behaviorally specific indicators to code the remaining thirty-six (36) transcripts and thereby determine which characteristics distinguish superior from average performance;
- d) Coordinate with S&T/RD/EED to compare these findings with those of Project activities in Malawi, Ecuador, and India;
- e) As the result of such comparisons, formulate, as necessary, in consultation with representatives from S&T/RD/EED and the National Science Foundation, any required adjustments to the research strategy.

B. Develop and Validate Selection Methodologies

(i) Selection Methodology Development:

- a) Identify the personal entrepreneurial characteristics from the pre-implementation analysis and the field interviews which are to be utilized in developing selection methodologies;
- b) Develop or identify entrepreneur selection instruments to assess the personal entrepreneurial characteristics.

(ii) Identification of the Validation Samples:

- a) Plan the cross-validation sample selection with the Moroccan research organization(s);
- b) Establish the cross-validation sample selection, including:
 - 1) Forty-five (45) superior and forty-five (45) less-effective entrepreneurs who were not interviewed initially;
 - 2) Thirty (30) start-up entrepreneurs who have been in business less than six (6) months; and
 - 3) Thirty (30) potential entrepreneurs (i.e., applicants to entrepreneurial institutes or students in entrepreneur-development programs).

Within each group, the sample should be divided equally among individuals in manufacturing, marketing/trading, and retail types of businesses, and should reflect a proportionate representation of female entrepreneurs.

(iii) Implementation of Selection Instruments:

- a) Train the Moroccan research organization(s) to administer the selection instruments;
- b) Coordinate the administration of the selection instruments to the validation sample and the translation of the resulting data;
- c) Review the initial data obtained using the selection instruments, and advise the field research staff of any modifications necessary in the administration of the selection instruments.

(iv) Concurrent-Validation Analysis: Review the data obtained to determine the power of the selection instruments to differentiate superior from average entrepreneurs.

(v) Longitudinal-Validation Analysis:

- a) Develop a follow-up instrument to measure entrepreneurial success;
- b) Train the Moroccan research organization(s) to administer the follow-up instrument;

- c) Approximately twenty-four (24) months from the administration of the initial selection instruments, locate as many of the individuals as possible from the validation sample and administer the follow-up instruments to all of those who have businesses.
- d) Review the data obtained to determine the power of the selection instruments to predict:
 - 1) Whether the existing superior entrepreneurs have continued to be at least as successful as the average performers;
 - 2) Which of the start-up entrepreneurs are the most successful; and
 - 3) Which of the potential entrepreneurs actually established businesses successfully;
- e) Prepare manuals and scoring keys for the selection instruments.

C. Develop and Evaluate Behavioral Approaches to Entrepreneurial Training

- (i) Pre-Implementation Analysis: coordinate with S&T/RD/EED personnel and review current research literature to identify prior experiences in using behavioral training as a mechanism for developing personal entrepreneurial characteristics.
- (ii) Preliminary Training Program Design:
 - a) In coordination with S&T/RD/EED personnel, develop the overall course structure, identifying attitudinal as well as nonattitudinal components based upon the pre-implementation analysis and the results of the field research;
 - b) Select the indigenous training institution(s);
 - c) Design and conduct a "training of trainers"/ curriculum development workshop in Morocco;
 - d) Prepare initial training materials and manuals;
 - e) Field test the entrepreneurial training program; revising as appropriate, the program content and/or training materials and manuals.

(iii) Development of Program Impact Assessment:

- a) Develop objective measures of the entrepreneurial training program's impact (i.e., relative success indices);
- b) Determine research design, including the establishment of test and control groups in association with S&T/RD/EED;
- c) Coordinate the collection of baseline data with the Moroccan training institution(s).

(iv) Entrepreneurial Training Program Implementation:

- a) Finalize training program materials and manuals;
- b) Supervise the administration of the training program.

(v) Program Impact Assessment:

- a) Coordinate the collection of impact evaluation data with the Moroccan training institution(s);
- b) Analyze the data to assess the impact of behavioral training on entrepreneurial performance.

D. Information Dissemination (Reports and Meetings)

- (i) Annual Workplans: within two (2) months from the effective date of the contract, the contractor shall prepare and submit to S&T/RD/EED five (5) copies of a draft workplan which outlines the schedule of activities for the first year of the Project. Based upon the advice and guidance provided by representatives of S&T/RD/EED and the National Science Foundation, five (5) copies of the revised workplan shall be submitted for final approval within two (2) weeks after receipt of A.I.D. comments.

A similar annual workplan, subject to the review process described above, shall be submitted one (1) month prior to the completion of each project year over the remaining two (2) years of the contract, and shall summarize progress to date and describe the activities anticipated to be accomplished during the next project year.

- (ii) Annual Reports: within thirty (30) days after completion of each of the first two project years, the contractor shall submit to S&T/RD/EED five (5) copies of an annual summary report detailing the accomplishments of the preceding twelve (12) month period. Twenty (20) copies of the fully-edited final (third project year) annual report, summarizing the results of the Project, including analysis of the Moroccan data relative to the findings of similar Agency-sponsored projects in Malawi, Ecuador, and India, shall be submitted to S&T/RD/EED at the final annual meeting.
- (iii) Annual Meetings: concurrent with the publication of each annual report, and as a component of networking activities for disseminating the results and findings of the Project, the contractor will organize a meeting to evaluate and discuss project activities. Representatives of the contractor, S&T/RD/EED, and the Moroccan research organizations and training institutions are expected to participate. Other interested individuals/organizations may also be invited.